IDAHO FORECAST DESCRIPTION
The Forecast Period is the Third Quarter of 1999 to the Fourth Quarter of 2003

The outlook for the state's economy has changed little since the October 1999 *Idaho Economic Forecas*t was released. At that time it was projected that after booming for several years, the Gem State's economic growth would take a breather and expand slower over the forecast period. It is important to note that while growth is forecast to slow, it is not expected to stall or decline. As such, the state's growth streak that began in 1987 should continue over the foreseeable future. It is anticipated that Idaho nonfarm employment growth will drift down to 2.1% in both 2000 and 2001 then rise to 2.4% in 2002, and 2.5% in 2003. While this is low compared to recent years' increases, it is still faster than its national counterpart. National growth is not expected to increase by more than 2.0% in any year of this forecast.

A closer look reveals some of the hottest and coolest Idaho employment sectors. Manufacturing is expected to enjoy above average growth over the next few years thanks to a strong showing by its electrical and nonelectrical machinery component. Not only is this the largest manufacturing category, it is also one of the fastest growing. The other durable manufacturing category should recover nicely after suffering a small decline in 2000. The outlooks for two of the state's traditional manufacturing giants are not as bright. Lumber and wood products employment is forecast to drop from 13,241 in 1999 to 11,889 in 2003. Food processing employment, on the other hand, should rise slowly. Employment in both the mining and construction industries should remain fairly stable. The services-producing sector is projected to set the pace for overall job growth. This should not come as a surprise, as it accounts for about 80% of all nonfarm jobs. Its strongest performers should be trade and services, which also happen to be its largest categories. A more detailed analysis of these and other employment sectors follow this introduction.

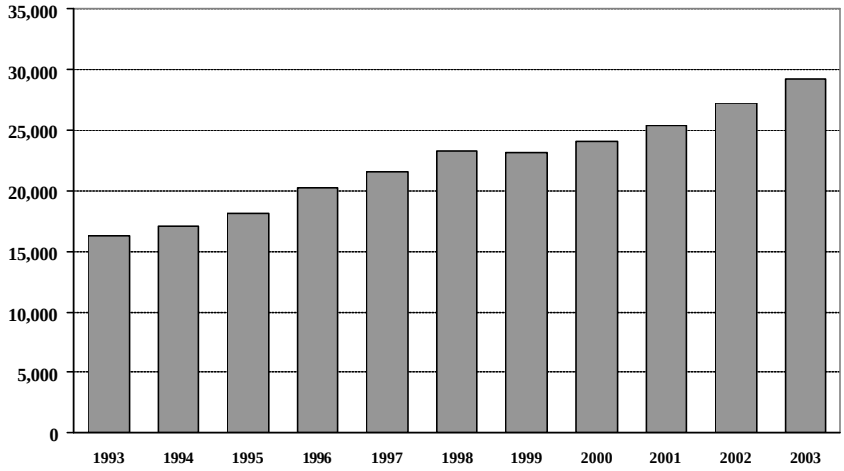
Idaho nominal personal income should chug along at a 5.5% to 6.0% annual pace over the forecast horizon. As is the case with employment, Idaho nominal personal income should grow faster than national nominal personal income. Adjusted for inflation, Idaho personal income is anticipated to rise 4.6% in 1999, 3.8% in 2000, 3.6% in 2001, 3.3% in 2002, and 3.4% in 2003. National personal income is expected to advance 4.1% in 1999, 3.4% in 2000, 3.2% in 2001, 2.4% in 2002, and 2.5% in 2003. Given Idaho's strong employment picture, it is no surprise that the lion's share of income growth should come in the form of wage and salary payments. Wage and salary payments also benefit from relatively strong annual average wage growth that is fueled by tight labor markets. Nonfarm proprietors should also propel income. From 1999 to 2003, nonfarm proprietors' income should climb from $3.1 billion to $3.8 billion. Unfortunately, farmers and ranchers are not expected to do as well. Farm proprietors' income is projected to grow slowly to about $300 million, which is well below its high of $463 million in 1996.

SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery: After several false starts, it appears the state's high-tech sector may once again be on the road to prosperity. This is a welcome relief from the last few years. Micron Technology, a world-class producer of computer memory products, will be the biggest beneficiary in the warmer high-tech business climate. This company's profits soared in the mid-1990s thanks to solid memory prices and continued manufacturing improvements that steadily reduced production costs. In order to take advantage of the healthy market, Micron undertook an aggressive

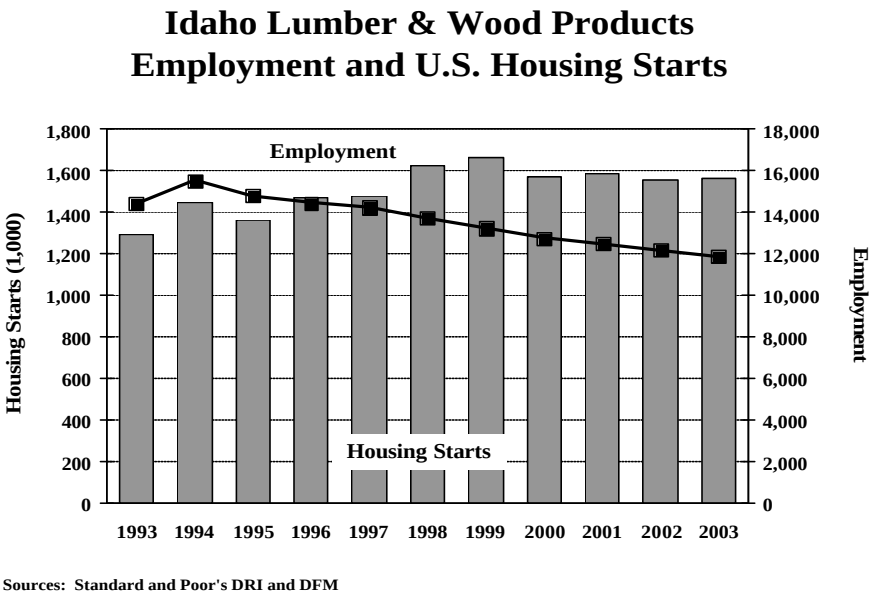
expansion that included a new manufacturing plant in Lehi, Utah. Unfortunately, the run of strong returns was stopped before this new factory was completed. Construction on the Lehi facility, which had been proceeding at a breakneck pace, was slowed to contain costs. This current downturn has lasted longer than most had anticipated. According to a Micron Technology press release, the price per megabit of memory declined 75% in its 1997 fiscal year, 60% in fiscal 1998, and 40% in fiscal 1999. Despite these declines, the company was able to avoid the layoffs that Micron saw (half its work force) in the mid-1980s. The recent bout of tough times has not stopped Micron from betting on the future. The company sold off some of its non-core businesses and acquired Texas Instruments' memory business in the fall of 1998. This complicated deal included several production plants that would help the company meet increased demand. One of the reasons the current slump has been so protracted is because worldwide memory manufacturing capacity has grown exponentially. For example, dynamic random access memory (DRAM) capacity in Taiwan increased from 5,000 wafers per month in 1992 to 180,000 wafers per month in 1999. Another factor that has hurt prices is the slump in demand caused by the Asian financial crises. It appears that many Asian countries' economies are on the mend (with the notable exception of Japan), and there have been some signs that demand is picking back up. Even more promising is the fact that memory prices have recently shown signs of strengthening. Hewlett-Packard is Boise's other high-tech giant. Like its Treasure Valley neighbor Micron, it too has seen its share of changes. In the past, employment at the Boise plant had been more weighted towards manufacturing. During its early 1990's heyday, the site's employment rose above 5,000 thanks in large part to the success of the company's LaserJet printers. Employment at the site is currently at about 4,000 people. During the past few years the company has emphasized research and development at the Boise plant and de-emphasized manufacturing. The company sold its LaserJet formatter board operations to Jabil Circuit, Inc. Virtually all of the employees involved with Hewlett-Packard's formatter operations transferred to Jabil. Jabil's operations are temporarily housed at the Hewlett-Packard plant until their Treasure Valley facility is completed. Idaho electrical and nonelectrical manufacturing employment is expected to decline 0.6% in 1999, then rise 4.1% in 2000, 5.2% in 2001, 7.4% in 2002, and 7.5% in 2003.

Idaho Electrical & Nonelectrical Employment



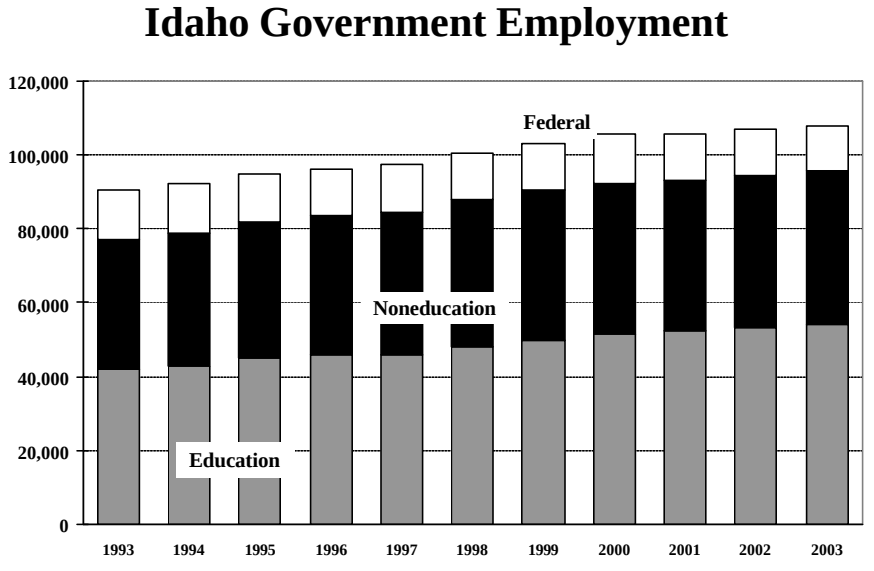
Lumber and Wood Products: The last five years have been tough for this industry and there is no relief in sight. This sector most recently peaked at around 15,500 jobs in 1993. From then to 1998, nearly 1,800 positions were lost. In 1998 alone payrolls dropped by 500 workers. Many of these losses resulted from mill closures. Closures have reached epidemic proportions in the West. For every two mills that were operating in 1990, only one was still in business in 1999. These declines were especially disappointing given the strong U.S. housing market. There were 1.62 million housing starts in the U.S. in 1998, which were a 10% improvement over 1997 and the strongest showing since 1987. As a result, U.S. consumption of softwood lumber and structural panels set new records in 1998. Given the soaring demand, it would be reasonable to expect wood product prices to climb. Instead, lumber

prices fell. This paradox—record consumption and declining prices—can be explained by looking closely at export markets. U.S. exports last year totaled just over a billion board feet, which was down 31% from 1997 and roughly half its 1994 level. Canadian overseas exports dropped 25% last year. The weakness in export markets reflected plunging demand in Asia. The natural consequence of reduced Asian demand was a North American market awash in supply—and prices declined accordingly. The recoveries in many of the smaller Asian countries have raised hopes of stronger prices. Indeed both lumber and structural product prices rose through the first half of 1999. Unfortunately, they have since retreated. Perhaps this reflects the current excess capacity in this industry. One estimate says the industry already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. In the long term, employment in the lumber and wood products industry will be limited by the dwindling supply of timber from public lands. For example, Random Lengths reported that only 30% of the Idaho timber harvested in 1998 came from public lands, although 80% of the state's timber sat on public lands. The uncertainty of the public timber supply should limit future investment and further dampen employment in the Gem State's lumber and wood products sector. Gem State lumber and wood products employment should slide 3.6% in 1999, 3.7% in 2000, 1.9% in 2001, 2.7% in 2002, and 2.3% in 2003.



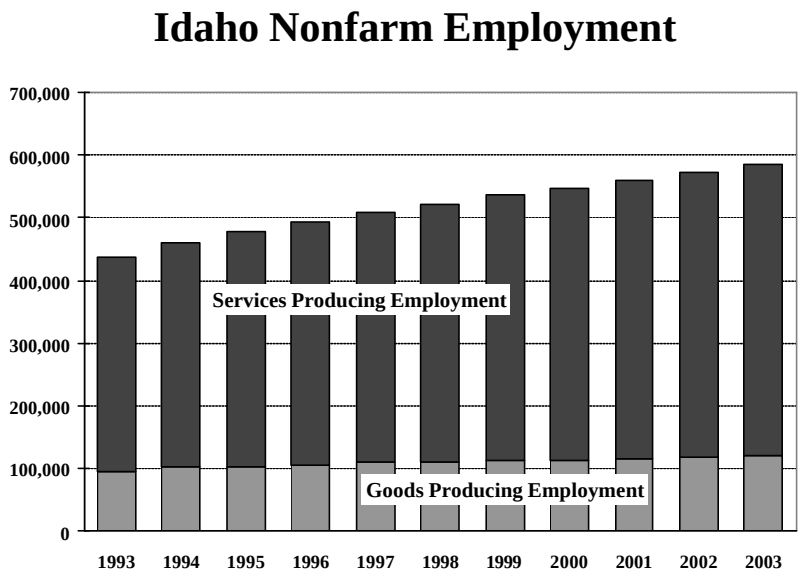
Sources: Standard and Poor's DRI and DFM

Federal, State, and Local Governments: The current forecast for Idaho's government sectors calls for state and local employment growth to slow and federal employment to fall. Idaho state and local government employment combined advanced over 3.5% annually during the first half of this decade, which was more than twice the national average. During this same period, the Gem State's population grew as much as three times as fast as the U.S. population and its economic growth eclipsed its national counterpart. Both Idaho population and economic growth should cool over the forecast, and this will take a toll on this sector's employment growth. State and local government employment gains will also be limited by a law that caps local government budgets. As a



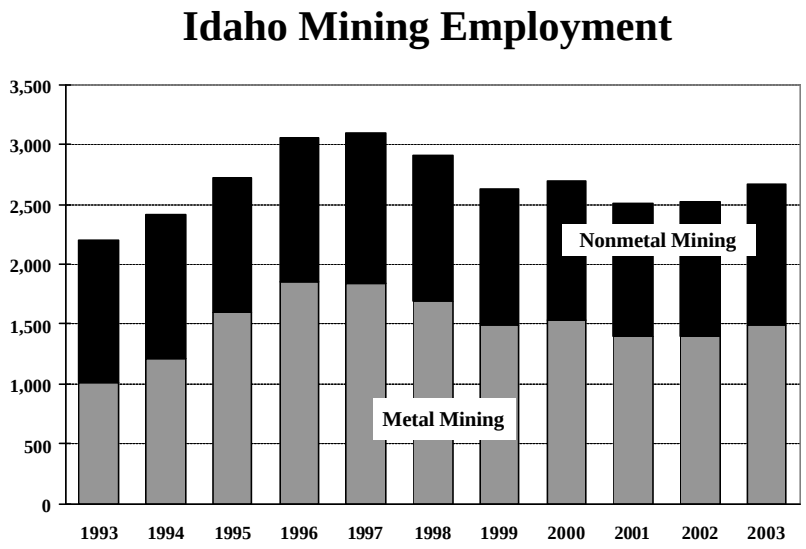
result, after leading its national counterpart for several years, Idaho state and local government employment growth will drop slightly below the national pace. Specifically, Idaho state and local employment is forecast to increase 3.1% in 1999, 1.8% in 2000, 1.3% in 2001, 1.2% in 2002, and 1.2% in 2003. Nationally, state and local government employment is anticipated to rise 2.1% in 1999, 1.7% in 2000, 1.6% in 2001, 1.4% in 2002, and 1.3% in 2003. As has traditionally been the case, most of the Idaho government employment growth should come from the education sector. It is expected to average 1.8% annual growth over the 1999-2003 period, while non-education employment is forecast to rise just 0.8% annually. Federal austerity measures should limit federal government job opportunities in Idaho. In fact, this category should see its employment fall from 12,678 in 1999 to 12,418 in 2003. It will get a short respite in the first half of this year, when the hiring of temporary census workers swells employment to 14,055. By the last quarter of 2000, however, Idaho federal employment is projected to be down to 12,597.

Services-Producing Industries: The services-producing sector is the state's largest and most diverse employment category. Alone, it accounts for about 80% all nonfarm jobs. It consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Even when government employment is taken out of the services-producing mix, what remains still accounts for over 60% of all jobs. Not only is this sector huge, it has been an important growth engine. For example, over the decade from 1988 to 1998, Idaho services-producing employment accounted for about 80% of the total job gain. This growth occurred because of favorable cyclical and structural factors. One of the most significant factors has been the increasing number of women in the labor force. This has increased the demand for a wide range of goods and services, such as childcare and meals away from home. Another change agent has been the growing number of single-person and single-parent households; due partly to the increasing number of persons delaying their first marriages and the greater number of divorced persons. In the future, the aging baby-boom generation increases the demand for services for the aged. In addition, this generation of older persons will probably be healthier than previous generations and will demand more recreational/leisure services. Structural changes will also include the way businesses operate. With the onset of the information economy, companies have more flexibility in locating their operations. They are less tied to locating near their customer base and can move to an area with a highly productive work force. Ironically, manufacturing changes have also helped service employment. Instead of taking on new employees to meet peak production, many manufacturers now hire temporary workers from employment agencies. Since these persons work for the employment agency, they are classified as service employees even though they are performing manufacturing tasks. It should be pointed out that non-economic factors also affect employment levels. For example, there has been a significant drop in the finance, insurance, and real estate category in 1998 compared to the previous year because the U.S. Bureau of Labor Statistics determined that 3,600 of the Idaho jobs reported as noncovered real estate



should be classified as self-employed. Overall, services-producing employment is projected to increase 3.1% in 1999, 2.5% in 2000, 2.2% in 2001, 2.4% in 2002, and 2.5% in 2003.

Mining: The state's mining sector should enter a period of relative stability after suffering back-to-back employment losses in 1998 and 1999. Mining employment fell from about 3,000 in 1997, to just over 2,600 in 1999, with both the metal and non-metal mining sectors suffering losses. Much of this decline is attributable to the Asian economic crises that depressed worldwide commodity prices. For example, lower prices contributed to the decision to cut production and lay off 75 of the 250 employees at the Thompson Creek molybdenum mine and mill in Custer County. The Delemar Mine in Owyhee County fell victim to low gold prices. Given current conditions it may seem hard to believe that things should stabilize, but several factors suggest this is indeed possible. First, the Asian economic crisis is showing signs that it has bottomed out and this should halt the deflationary spiral, which will aid metal prices. Second, it does not appear that central banks will be selling gold on the open market. Third, many operations in Idaho have cut employment to the point where further large reductions do not seem possible. This is not to imply that the future will be without its challenges. Mining employment will also be affected by the winding down of Meridian Gold's Beartrack Mine in Lemhi County. The number of workers at the mine will shrink from the current 150 to about 15 to 25 employees by the first quarter of 2001. Metal mining is not the only category to face challenges. In addition to the slowing economy, nonmetal mining employment will suffer under the additional weight of construction and agricultural problems. The expected flattening of the construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Soft agricultural commodity prices will probably lead to acreage reductions that reduce fertilizer demand. This will affect companies in Southeast Idaho where phosphorus ore is mined and fertilizer is manufactured. Mining employment should hover between 2,500 and 2,700 over the forecast period.



Construction: Idaho should conclude this decade without the help of one its most important growth engines: construction. Its absence will be missed. Like the overall Idaho economy, the construction sector started to recover in the late 1980s. In 1983, construction employment was just above 13,000. It took off briefly to about 15,000 in 1985, but retreated to 13,721 in 1987. In 1988, the current recovery took off in earnest. It started slowly at first, with employment growing by just 3.5% in 1988. It was initially fueled by the commercial sector. Construction employment continued to grow in 1988, while housing starts actually fell slightly. But housing joined the growth bandwagon soon after. Idaho housing starts increased an astounding 40.2% from 1988 to 1989 in what would become the first in a series of six straight years of double-digit growth. There were over 12,700 housing starts when this run ended in 1994. This was nearly fourfold 1988's 3,334 starts. The boom resulted from Idaho's strong population growth during that period. The Gem State was one of the nation's strongest economies during that period, and attracted thousands of newcomers into the state. The strong net in-migration

caused Idaho's population to shift from growing slower than the national rate in 1989 to growing three times the national rate by 1994. Because of the dearth of housing starts in the early 1980s, the construction industry found itself in catch-up mode during most of the boom period. This helps explain why there was no serious housing inventory overhang despite the robust growth. Housing starts did drop 26.7% in 1995, however. This realignment was a move to more sustainable levels. Despite the drop, there were still 9,362 starts in 1995. It should also be noted that while housing starts fell in 1995, construction employment continued to grow, reflecting the strength of the nonresidential building sector. Since 1995, construction employment levels have hovered near 32,000, which is more than twice as high as in 1987. Idaho housing starts are forecast to remain near 10,000 units. Construction employment is forecast to grow slowly from 34,123 in 1999 to 34,612 in 2003.

Idaho Construction Employment and Housing Starts